Print

Wednesday, December 14, 2011 6:28 AM EST

Gingrich Tax Plan Would Favor the Rich, Increase Budget Deficit

By Maggie Astor

Newt Gingrich would be the most generous of any presidential candidate in terms of tax cuts -- but his tax plan would also increase the deficit by more than $1 trillion in a single year, according to **a new analysis** from the nonpartisan Tax Policy Center.

Under Gingrich's plan, which has received little attention until now despite his newfound status as the Republican front-runner, individuals would be able to choose between their current tax rate and a flat 15 percent rate: exactly like Rick Perry's **optional 20 percent flat tax**, but with an even lower number. The corporate tax would fall from 35 percent to 12.5 percent; the alternative minimum tax would be eliminated, as would taxes on capital gains, dividends and interest income; and most itemized deductions and credits would be cut.

The result would be dramatically lower federal revenues -- a decrease of between $850 billion and $1.28 trillion in the first year alone -- and a tax code that disproportionately benefits the wealthiest taxpayers.

The International Business Times spoke with several tax-policy experts about the pros and cons of Gingrich's plan.

Uneven Distribution

Because Gingrich's plan would allow taxpayers to choose between their current tax rate and the new 15 percent rate, no one's taxes would increase. The savings, however, would go disproportionately to high-income taxpayers.

According to the Tax Policy Center analysis, the overwhelming majority of the savings, 82.9 percent, would go to people earning more than $119,546 a year. Half would go to the top 1 percent of earners alone -- those with annual incomes of $622,809 or higher -- and just 7 percent would go to the bottom 60 percent, who make less than $69,074 a year.

Chris Edwards, the director of tax policy for the libertarian Cato Institute, said this picture was misleading.

"I don't think that sort of distribution tells you anything unless you compare it to who is currently paying taxes," Edwards said. "Because the top 1 percent or the top 10 percent pay the vast bulk of income taxes now, of course they're going to get most of the cuts when you cut taxes. About 50 percent of people at the bottom end pay no federal income taxes, so of course when you cut federal income taxes, people at the bottom are going to get nothing."

It does go without saying that people who currently pay more in taxes would see a bigger absolute gain from tax cuts: if tax rates decreased by 5 percent across the board, for instance, people with higher incomes would save more in absolute terms.

However, under Gingrich's plan, just like under Perry's, the percentages themselves are uneven. According to the Tax Policy Center analysis, the bottom 20 percent of earners would see their after-tax income increase by 0.6 percent on average. The top 20 percent, on the other hand, would see their after-tax income increase by 12.8 percent, and the top 1 percent would see a 25.5 percent increase.

But Michael Franc, vice president for government studies for the conservative Heritage Foundation, said the distribution was not unfair when put in the context of the current tax code.

"We already have an enormously progressive tax code," Franc said. "The baseline for the distribution of who pays taxes is enormously weighted toward the wealthy."

He noted that maintaining higher tax rates for the wealthy can sometimes mean forfeiting economic growth.

"Do we really want to have a more equally distributed income storyline if the cost of that is that no one's really making money on their investments?" he said. "The cost of having a thriving, robust and growing economy is, you tend to get a lot of income reported at the high end. It gets down to whether class envy is a defining feature of the American psyche or not."

A Ballooning Deficit

The more serious issue with Gingrich's plan, most experts agreed, is the huge amount it would add to the deficit. Congress would have to cut upwards of $1 trillion in spending just to keep the deficit at its current level, much less start reducing it.

Under the Gingrich plan, federal tax revenues would fall by between $830 billion and $1.28 trillion in the first year alone, depending on whether the Bush tax cuts expire. By comparison, Rick Perry's tax plan would decrease federal revenues by between $570 billion and $995 billion, **according to the Tax Policy Center**, while other candidates have proposed revenue-neutral tax-reform plans.

"It loses a huge amount of revenue at a time when we don't really have revenue to lose," Roberton Williams, a senior fellow with the Tax Policy Center, said. "If you think about the travails that the super committee went to to cut the budget by $1.2 trillion over 10 years, imagine cutting $1.3 trillion over one year, and then you have to do that nine more times to look at a 10-year window. There's just no way this would lead to anything close to a balanced budget."

Edwards was less concerned about the feasibility of making spending cuts that large, and more concerned about how little Gingrich has focused on spending cuts at all.

"Looking at Newt Gingrich's general plans, he's much more radical on the tax side than the spending side," Edwards said. "On the spending side, he's pretty wimpy, frankly. I would be in favor of Gingrich's trillion-dollar tax cut if he matched it with a trillion-dollar spending cut, but he doesn't do that."

This is a problem with almost every tax plan proposed so far, Edwards said.

"They're chickening out politically," he said of the Republican candidates. "They're not really facing the biggest problem, which is spending. They're trying to score cheap points from the conservative base on taxes, but they're not doing it in a serious way, because they're not matching the tax reforms with the spending reforms."

But even if the candidates did propose major spending cuts, as most candidates have, **the failure of the super committee** underscored how difficult it is to push proposed cuts through Congress.

"It takes a huge bite out of the wallet," Williams said of Gingrich's tax plan, "and will therefore require a lot of very hard choices that it's hard to imagine Congress and any president making."

Gingrich and his supporters argue that the economic growth spurred by his tax cuts would cover the cost of those cuts in the long-term: the traditional supply-side argument that tax cuts can "pay for themselves." But many experts say that the cuts he is proposing are just too big for that.

"There is no way in hell that a tax cut this big pays for itself," Andrew Fieldhouse, a federal budget policy analyst for the liberal Economic Policy Institute, said. The plan would have to be financed either by deficit spending or by huge spending cuts, he said, and if Gingrich's tax cuts come "at the expense of public investments in transportation, infrastructure, education and basic scientific research, it would be massively contractionary for the U.S. economy.

"This is textbook starve-the-beast supply-side economics, but you're talking about starving government to an extent that hasn't been seen before," Fieldhouse added. "Not even eliminating Medicare and its $688 billion expenditure for 2015 would come close to paying for this tax proposal."

The Bottom Line

So Gingrich's plan would distribute tax cuts unevenly and balloon the deficit -- but would it at least stimulate economic growth and job creation, which is the foremost goal in many voters' minds?

Like many aspects of the plan, it depends whom you ask.

"To the extent that it puts money in people's pockets, people will spend more money," Williams said. "However, to the extent that it puts a lot of money into the pockets of the very rich, who save most of what comes in the door, it would not have nearly as strong a stimulative effect in terms of increasing demand."

But what about supply: the linchpin of conservative economic policy?

According to Williams, lowering the corporate income tax rate won't have as much of an impact as proponents argue, because lack of funds to invest isn't most businesses' problem right now. The problem, he said, is finding good investments to make. Some businesses are doing better than others, obviously, but "a blanket tax reduction that focuses most of the benefits on the wealthy is not going to have much bang for the buck at all in terms of stimulating the economy," he said.

Edwards disagreed.

Gingrich's tax plan "moves in the right direction by lowering marginal tax rates, particularly on corporations," Edwards said. "That's something that I think all the candidates have in common ... and I'm glad that all the Republican candidates are on board with a corporate tax cut, because I think it's the most important thing we can do for the economy."

Fieldhouse, however, called Gingrich's plan unrealistic, regardless of its theoretical benefits.

"All of the major [Republican] tax plans -- Rick Perry; formerly Herman Cain -- have shown this trend of very steep rate reductions at the top of the income distribution, but this [Gingrich's] simply isn't feasible," he said. "The Gingrich plan is truly off in la-la land. You're talking wholesale elimination of the legacies of the Great Society and the New Deal if you double down on the supply-side experiment.

"It's being treated as a serious tax proposal," Fieldhouse said, "but it's not. It's just electioneering."